SMALL BUSINESS FOREST ENTERPRISE

BID PROPOSAL SALES:

A REPORT to the MINISTER OF FORESTS

Bid Proposal Sales Committee

January, 1991

Province of British Columbia

Ministry of Forests

91-02966/

REPORT

to the

MINISTER OF FORESTS

Bid Proposal

Sales Committee

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EXECUTIVE SUMMARY

Bid Proposal Sales: A Report to the Minister of Forests

"Bid Proposal sales" are licences which give firms and individuals access to Crown timber. The purpose is to encourage and promote value-added manufacturing in the forest sector in British Columbia. The licences are awarded by the Minister of Forests, pursuant to Section 16.1 of the Forest Act.

In the fall of 1989, the Minister of Forests established a Committee to examine and report on bid proposal sales.

The Committee has completed its work and submits the following Report.

Main Recommendations:

The Report contains over two dozen recommendations, and comments and positions of the representatives on the Committee. The three main recommendations are:

1. The licences should not be replaceable.

   It is not the intent of the licences to provide "quota" type supply. That is to say that the holder of a licence that has expired may not be the successful applicant for another licence. The licences should not be automatically replaceable when they expire.

2. More flexibility should be allowed in supply agreements; they should be optional.

   Some of the firms which have licences want to trade the logs from the licence for other logs or for lumber. Trading is presently allowed, through written supply agreements. The Ministry of Forests requires supply agreements where trading occurs and specifies volume conditions for the trading.

   The Committee recommends these agreements not be required, so that remanufacturers and sawmills can reach their own agreements.

3. More flexibility in the decision-making process for the award of bid proposal sales.

   The Ministry of Forests should continue to evaluate the proposal submitted by each applicant, as is presently the case, and the Minister should normally award the licence to the applicant with the best score in the evaluation. However, in those cases where the proposal with the best score is not clearly superior to all other proposals, the Minister should reach his decision on the basis of four subjective factors--existing plants, local plants, employment and new products.

Summary of the Report:

The Report has three main sections, which correspond to the terms of reference for the Committee:

Existing Policies and Possible Changes

In this section, the policies which now apply to bid proposal sales are examined, in detail.

The Committee reviewed the relevant sections of the Forest Act, the Small Business Forest Enterprise Regulation and the regulation governing deposits for licences. No changes are recommended, but the Committee supports the provision in the Forest Act that these licences are not replaceable.

Apportionment of the allowable annual cut and the determination of stumpage prices were examined. Changes to the allowable annual cut should only be made after consultation and careful consideration. Stumpage prices for the licences should be determined in the same way as for other licences.

The Ministry's policy statement for bid proposal sales was reviewed in detail. More flexibility should be incorporated in the evaluation, the use of consultants by the Ministry restricted, supply agreements should be optional, new sawmills allowed only in specified circumstances, consideration given to restricting log exports, and the Ministry should monitor performance.

Alternative Policies

In this section completely different approaches to encouraging value-added manufacturing are examined.

Five alternative policies were discussed, ranging from simply selling timber competitively to the highest bidder, to supply targets which specify a volume sawmills must make available to remanufacturers. No concensus emerged on the alternatives--each has administrative, economic, legal or practical constraints.

New Initiatives

The Committee has identified some new initiatives the government could consider.

The Committee recommends the Ministry undertake a comprehensive study of remanufacturers and specialty producers, continue to support market development and research, and that a thorough study of tariff barriers be performed.

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1.0 INTRODUCTION:

Through this Report, the Bid Proposal Sales Committee provides the Minister of Forests with its review and recommendations concerning timber sales under Section 16.1 of the Forest Act.

The Committee was formed in the fall of 1989 by the Honourable Dave Parker, then Minister of Forests.

The terms of reference for the Committee were to:

1. Review the existing policies for sales under Section 16.1 of the Forest Act and identify changes the government could consider;
2. Identify and describe alternative policies for these sales; and
3. Propose new initiatives the government could consider to encourage the production of remanufactured and specialty forest products.

2.0 ORGANIZATION OF THIS REPORT:

Following a description of the Committee and a brief overview of bid proposal sales, the Report follows the terms of reference for the Committee. In three separate sections, each point of the terms of reference is dealt with.

Where a majority of the Committee agreed on a particular issue or point, a recommendation is given. Where a majority position could not be reached, the key points of view are described. Finally, in some cases a member of the Committee has asked that the position of the association or group he represents be explicitly noted in the Report, and this has been done.

3.0 COMMITTEE MEMBERSHIP AND ACTIVITIES:

The members of the Committee are:

Mr. Wes Cheston (Chairman)
Assistant Deputy Minister
Ministry of Forests

Mr. Peter Byl
Scana Industries Ltd.
(SCANA)

Mr. Mike Carlson*
Ministry of Forests
(MOF)

Mr. Roger Ennis
Ministry of Forests
(MOF)

Mr. Rick Franko
Cariboo Lumber
Manufacturers Association
(CLMA)

Mr. Ross Gorman
Interior Lumber
Manufacturers Association
(ILMA)

Mr. Bill Howard
Ministry of Forests
(MOF)

Mr. Rick Jeffery
The Truck Loggers Assoc.
(TLA)

Mr. Bob Landucci
Landucci Industries Ltd.
(LI)

Mr. Evans Lougheed
Canwood Furniture Factory
Inc. **(CFF)**

Mr. Ernie Mandrusiak**
Independent Lumber
Remanufacturers Association
(ILRA)

Mr. Bill St. John
Council of Forest
Industries - Coast Lumber
Sector **(COFI-CLS)**

Mr. Don Sluggett
Ministry of Forests
(MOF)

Mr. Bob Stowell
Northern Interior Lumber
Sector
(NILS)

* replaced Mr. Peter Levy
** replaced Mr. Colin Harte

The Committee has met ten times since October, 1989. At each meeting, minutes were kept by Mr. Norbert Greinacher, Ministry of Forests. A full copy of the minutes is provided in Appendix 1.

In early 1990, the Committee advertised in the B.C. Gazette that submissions would be accepted and that interested parties could make presentations to the Committee. A list of the people who made presentations is given in Appendix 2, and a copy of each submission is provided in Appendix 3.

4.0 OVERVIEW OF BID PROPOSAL SALES:

Bid proposal sales are timber sale licences which are advertised and awarded under Section 16.1 of the Forest Act.

Section 16.1 was put in the Forest Act in July, 1988. The government's intent was to use these sales to encourage the remanufacturing of lumber and the production of specialty products by firms which are in the Small Business Forest Enterprise Program (S.B.F.E.P.). Put another way, the sales are to encourage value-added manufacturing.

The Committee endorses the following objectives for bid proposal sales:

1. Encourage and promote economically sound and viable lumber remanufacturing and the production of specialty products in British Columbia;
2. Provide opportunities for independent and smaller firms; and
3. Award licences through competition.

All groups represented on the Committee agree with Objective 1. Indeed, there is strong support in most sectors of the industry that lumber remanufacturing and the production of specialty products should be encouraged in British Columbia.

The second objective is accepted by most, but not all, representatives on the Committee. It means that some firms cannot apply for bid proposal sales. More specifically, firms which hold licences which have an allowable annual cut of more than 10 000 m^3 cannot participate. In other words, major licensees cannot apply regardless of whether or not they produce value-added products. This limits the eligibility to those firms and individuals who do not have a significant supply of Crown timber.

The Independent Lumber Remanufacturers Association (ILRA) and the Truck Loggers Association (TLA) strongly support the second objective. They agree with the restriction that major licensees are not eligible for these sales.

The Cariboo Lumber Manufacturers Association (CLMA), Coastal Lumber Sector (COFI-CLS), Interior Lumber Manufacturers Association (ILMA) and Northern Interior Lumber Sector (NILS) all disagree with the restriction. They believe all firms should be eligible for these sales, including major licensees.

Virtually all groups represented on the Committee agree with the third objective. Canwood Furniture Factory Inc. (CFF) argues that long-term security of fibre supply is essential.

4.1 LICENCES AWARDED:

The Ministry has awarded 80 Timber Sale Licences under Section 16.1 of the Forest Act.

These licences contain a total volume of 9.8 million cubic metres and have an average term of 4.8 years.

The firms which have been awarded licences submitted proposals to the Ministry for maintaining and expanding their operations. The proposals involve:

- existing manufacturing employment of 2,000 jobs;
- proposed new manufacturing employment of 1,600 jobs; and
- proposed investment of $88 million.

A summary of the proposals can be found in Appendix 4.

The successful proposals involve a diverse array of products and markets. The successful firms produce furniture and components for furniture, log homes, chopsticks, metric sized lumber and other products.

Demand for the licences exceeds the supply of timber. Over 470 firms have approached the Ministry and indicated they would like to compete for licences. For the 80 licences which have been awarded, the Ministry received about 400 proposals.

4.2 KEY ISSUES:

Firms who are interested in these sales are usually one of two types. One type of firm uses logs in the manufacturing process (for example, a log home producer). Other firms start with rough lumber in their manufacturing operation (for example, a lumber remanufacturer).

The Ministry's policies for these sales are designed so that both types of firms can participate in bid proposal sales. It is important that lumber remanufacturers are able to participate because there are many such firms and remanufacturing is a growth area of the forest industry.

The key to this report is the way that the Ministry's policies allow a lumber remanufacturer to participate in bid proposal sales. The Ministry allows a lumber remanufacturer to hold a timber sale licence and, through the licence, to own the right to harvest standing timber. After the timber is harvested, the remanufacturer can have any sawmill saw the logs, so long as there is a supply agreement between the remanufacturer and the sawmill to ensure the remanufacturer gets a lumber supply. Furthermore, the Ministry requires the supply agreement to specify a minimum volume (the equivalent volume) of lumber which must be supplied.

5.0 EXISTING POLICIES AND POSSIBLE CHANGES:

5.1 LEGISLATION:

The Committee reviewed the relevant sections of the Forest Act (Sections 1, 8, 16, 16.1, 17, 18, 61.1, 87.1).

The most important legislative issue is as follows:

Replacement of Licences:

Under the Forest Act, licences issued under Section 16.1 are not replaceable. Once harvesting under a licence is complete, or the term of the licence expires, the licence has no effect and the licensee has no further right to Crown timber.

The Committee discussed whether or not the licences should be replaceable.

The main argument for replacement is that firms need a secure fibre supply. If a licence expires and a firm does not have a fibre supply to replace it, the firm will shut down unless a fibre supply can be purchased privately in the log or lumber market.

The main argument against replacement is that firms should compete for new sales which are advertised. Licences should be awarded to the firm with the best proposal, to encourage firms to continue to add the most value to the fibre.

The Committee believes that the licences should not be replaceable. It is not the intent of the program to provide "quota" type supply. That is to say that a successful applicant for a sale may not be successful in future competitions.

However, the Minister should consider the supply requirements of existing firms when new licences are awarded. This point is discussed further in Section 5.6, below.

5.2 SMALL BUSINESS FOREST ENTERPRISE REGULATION (B.C. Reg. 265/88):

This Regulation was reviewed and discussed in some detail. The key policy issues are as follows:

"Three Sale Limit":

The Regulation allows any individual or firm which is registered in the Small Business Forest Enterprise Program to hold, at any time, a maximum of three timber sale licences.

The intent of the three sale limit is to prevent one firm from acquiring all or most of the timber sales in an area. In this way, opportunities are provided to more individuals and firms.

The Committee discussed whether or not this should be changed to allow an individual or firm to hold any number of licences, so long as the volume in the licences did not exceed the capacity of the manufacturing plant. The ILRA and CFF both feel a capacity limit would be better than the three sale limit.

Changing the Regulation to have a capacity constraint would require a measurement of capacity, and this would be difficult. As well, if the three sale limit is removed for sales under Section 16.1, it should logically be removed for all sales under the S.B.F.E.P. so that market loggers can acquire any number of competitive sales advertised under Section 16 of the Forest Act, up to their logging capacity.

Allow Major Licensees to Register:

The Regulation prohibits a major licensee from registering in the Small Business Forest Enterprise Program. A major licensee is defined in the Regulation as an individual or corporation which holds replaceable licences with an allowable annual cut of more than 10 000 cubic metres.

The Committee discussed, at length, whether some major licensees should be allowed to register and thereby participate in bid proposal sales.

In particular, some major licensees have been and continue to be involved in the remanufacturing of lumber and production of specialty products. Allowing them to register would give recognition to their efforts and provide them with an opportunity to obtain more timber.

The argument against allowing some major licensees to register is that they already control substantial rights to Crown timber, and the Small Business Forest Enterprise Program should remain a source of timber for those who do not have substantial timber rights.

The majority of the Committee recommends that no major licensee be allowed to register. However, a minority of the Committee disagrees very strongly with this recommendation.

The CLMA, COFI-CLS, ILMA and NILS disagree with this recommendation. They argue that all firms who are involved in remanufacturing should be eligible for these sales, including major licensees.

"Joint-Ventures":

The Regulation allows a major licensee to own up to 50% (but not 50% or more) of the shares of a firm which is registered in Category 2 of the S.B.F.E.P. Category 2 registration is for firms which own or lease timber processing facilities.

Joint-ventures have not been a prominent feature to date. Of the 80 licences which have been awarded, five involve firms with minority ownership by major licensees.

Some representatives on the Committee argue strongly that the S.B.F.E.P. should be a source of timber for firms which are completely independent of the major licensees. The joint-venture provision of the Regulation is inconsistent with that view and therefore should be removed.

Another concern is the possibility that a small business firm with a licence could go bankrupt and the major licensee could then acquire the licence. The effect would be that a major licensee, through a joint-venture, acquired timber under the Small Business Forest Enterprise Program.

Other Committee representatives point out that the Regulation does not require joint-ventures, it only allows them to occur. Whether or not a small business has a major licensee as a joint-venture partner is up to the small business to decide and, in this light, the provision of the Regulation should remain.

The majority of the Committee sees nothing wrong with the joint-venture concept. Firms can do this if they want, it is up to each firm to decide.

The TLA strongly objects to the joint-venture provision in the Regulation and believes a major licensee should be prohibited from owning more than 10% of any small business firm. Further, the TLA's position is that bid proposal sales should be removed from the S.B.F.E.P. and the allowable annual cut reallocated to competitive sales, if the present joint-venture provision is retained.

Deregister Firm Until Expansion is Complete:

The Regulation allows a firm to hold three timber sale licences at any time, even if the firm has proposed to build or expand a new plant, and the construction or expansion is not complete.

The issue is whether a firm should have to complete a proposed construction or expansion, before being eligible to hold a second or third licence.

Restricting a firm in this way could ensure that the firm implements its proposal completely. However, the restriction would prevent the firm from acquiring more licences and expanding further than was initially proposed.

The Committee recommends that such firms be allowed to hold three sales at any time. To ensure that a firm implements its proposal, the Committee recommends that the Ministry should not allow any logging under a licence until the expansion or construction is substantially complete.

A plant should be considered to be substantially complete when the equipment is in place and logging is necessary to build an inventory of logs or lumber to begin manufacturing operations.

5.3 DEPOSIT REGULATION (B.C. REG. 552/78):

The Committee briefly reviewed the deposit requirements for bid proposal sales. Deposit requirements were substantially reduced in November, 1989.

The Committee agrees with the changes and did not see a need to make further changes to the deposit requirements.

5.4 APPORTIONMENT:

Under Section 8 of the Forest Act, the Minister apportions the allowable annual cut available to the Small Business Forest Enterprise Program across the different types of sales.

The Committee reviewed the provincial apportionment, which is shown in Table 1.

TABLE 1:

ALLOWABLE ANNUAL CUT

SMALL BUSINESS FOREST ENTERPRISE PROGRAM		
Competitive Sales: (Sec. 16)	5 478 979	
Bid Proposal Sales: (Sec. 16.1)	3 597 882	
Direct Sales: (Sec. 18)	246 975	
TOTAL: S.B.F.E.P.	9 323 836	9 323 836
TREE FARM LICENCES		17 807 675
FOREST LICENCES		
Replaceable	38 467 671	
Non-replaceable	4 173 310	
Total: F.L.	42 640 981	42 640 981
TIMBER SALE LICENCES (Major)		
Replaceable	180 528	
Non-replaceable	1 336 100	
Total: T.S.L. (Major)	1 516 628	1 516 628
WOODLOT LICENCES		551 405
FOREST SERVICE RESERVE		674 629
PULPWOOD AGREEMENTS		1 624 000
UNAPPORTIONED VOLUME		432 835
TOTAL		74 571 989
S.B.F.E.P./Total	12.5%	

Note: The Tree Farm Licence A.A.C. shown above excludes the S.B.F.E.P. A.A.C. which is within Tree Farm Licences. That A.A.C. is included in the S.B.F.E.P. section of the table.

The Committee discussed whether the apportionment for bid proposal sales should be increased in the event the Minister had the opportunity to allocate more volume to the Small Business Forest Enterprise Program. In particular, new volume arising from transfers of licences and cut control requirements could provide a means to expand bid proposal sales.

The Committee was not unanamous on this issue. Some representatives felt that bid proposal sales should be greatly expanded. Others felt that additional volume should be sold to the highest bidder, through competitive sales.

The Committee believes that bid proposal sales should not be expanded by legislation like that enacted in 1988, without full consultation with all sectors of the industry to determine the impact of an expansion. As well, further expansion now could exacerbate future timber supply problems the existing industry faces, due to land withdrawals, native land claims and other pressures.

The majority of the Committee believes flexibility is important. New volume arising from transfers and cut control requirements should not be automatically apportioned to a specific type of sale. Rather the apportionment should consider the local demand situation.

The TLA disagrees and believes new volume should be sold through competitive sales.

The Committee recommends that changes to the apportionment should only be made after careful consideration. This is a sensitive issue.

5.5 STUMPAGE PRICES:

The Committee reviewed stumpage price determination, as it applies to bid proposal sales.

The Committee recommends that no special consideration be given in the determination of stumpage prices for bid proposal sales.

5.6 POLICY STATEMENT:

The Ministry's Policy statement for bid proposal sales was reviewed in detail. A copy of the statement is included in Appendix 5, for reference.

The key issues are as follows:

Evaluation:

After a Licence has been advertised, interested firms submit proposals for the licence. Each proposal is then evaluated by the Ministry.

The Committee's deliberations concentrated on three aspects of the evaluation procedure.

First, the Committee discussed whether the evaluation procedure should be changed to create an incentive for firms to remanufacture the lower grades of lumber.

To illustrate this important point, a simple example is useful. A pallet manufacturer uses low grade lumber worth $150 per thousand board feet and produces pallets worth $300 per thousand board feet. The value-added is $150 per thousand board feet, an increase of 100%. In contrast, a producer of components for remanufacturing uses high grade lumber worth $300 per thousand board feet and produces products worth $1,200 per thousand board feet. His value-added is $400 per thousand board feet, an increase of 50%.

Under the present evaluation procedure, the furniture components producer has the highest value-added--$400 versus $150. If the evaluation procedure were based on percentage increase, the result would be different.

In essence, the present evaluation procedure is driving firms to add the most value possible and, because more value can be added to the higher grades of lumber, firms are concentrating in that area.

Some members of the Committee believe the evaluation procedure should be changed to create an incentive for the firms which remanufacture the lower grades of lumber, because they see remanufacturing of the lower grades as the most promising area for expansion in the industry. Other members take a different view. They argue that the present procedure leads to the greatest value-added and when all of the opportunities to add value to higher grades are achieved, the procedure will naturally lead to the lower grades.

Second, the Committee discussed the detail involved in the evaluation procedure. The Committee recognizes the complex nature of the evaluation, but believes this is necessary if it is to be critical in the decision to award licences. The Committee felt the evaluations were reasonable.

While the evaluation is conceptually straight forward, it is complex in application. Prices for products, supplies and so on have to be reviewed carefully.

Third, the subjective factors the Minister should consider were discussed. As a result, the Committee recommends a modification to the evaluation procedure, as follows.

The Ministry should continue to evaluate all proposals and recommend to the Minister that he approve the proposal with the highest score. In the event the proposal with the highest score is not clearly superior to other proposals, the Minister should consider the following four factors to reach his decision:

1. Existing Plants:

   In some cases, the Minister will be faced with the decision of awarding a licence to an applicant who has proposed a new plant, or to an applicant with an existing plant.

   The Committee discussed whether the Minister should favour existing plants (and existing jobs) over new plants (and new jobs) when decisions are made. Since demand for these sales exceeds the supply of timber which is available and the overall supply of timber in British Columbia is expected to fall due to land withdrawals, etc., a policy which gives preference to existing firms is reasonable.

   The Committee is therefore in favour of giving consideration to existing plants (and existing jobs). The Committee recognizes that the degree of preference cannot really be quantified, as each decision will have specific and unique circumstances. Therefore, this should be determined by the Minister, on a case-by-case basis.

2. Local Firms:

   In some cases, the Minister will be faced with the decision of awarding a licence to an applicant who is located near the timber sale, or to an applicant who is not.

The Committee is in favour of giving consideration to local plants and local jobs. However, the definition of what local means is elusive. Local could mean in the town nearest to the timber, in the same Forest District, etc. In the end analysis, the notion of a local applicant is subjective, and should be considered by the Minister.

3. Employment:

   The Minister should consider the amount of employment in manufacturing. Proposals which involve more employment per cubic metre should be given preference over those with less employment.

4. Products:

   The Minister should consider the type of products the applicant will produce. Proposals which involve new products should be given preference over those which involve products which are already being produced in British Columbia.

This change to the evaluation process will provide the Minister with flexibility to consider subjective elements of the proposals for a bid proposal sale.

Consultants:

The Ministry sometimes employs expert consultants to independently evaluate proposals. This is done in cases where the proposals are complex or where the Ministry wants an independent analysis to ensure the evaluation is seen to be unbiased.

Applicants are informed by the Ministry before any data is released. Applicants can refuse to allow the Ministry to release data to a consultant and, in those cases, the Ministry does not release any information.

Committee members noted that some firms do not like consultants to have access to the data they provide the Ministry. Also, the Committee felt that the Ministry is doing and can do a reasonable job by itself. Ministry staff can consult with firms in the industry to verify data submitted in a proposal. Finally, the Committee concluded that the Ministry could hire an expert staff member to assist in evaluations, if necessary.

The Committee recommends that the Ministry stop employing consultants to do entire evaluations and employ consultants to address specific questions or problems.

Supply Agreements:

Under the Policy, a remanufacturing plant which uses lumber can apply for a licence, but must have a written supply agreement with a sawmill. Under the supply agreement, the sawmill cuts logs into lumber and supplies the remanufacturing plant with lumber. Trading of logs to get the appropriate species and grade is possible.

Through supply agreements, remanufacturers who do not own sawmills can participate in the Program.

The Committee discussed the role of government in these agreements, recognizing that some of the agreements could be the subject of future disputes. The Committee recommends that the government not get involved in resolving disputes between sawmills and remanufacturers. These are third party agreements and, accordingly, government should not involve itself. Supply agreements are contracts between private sector firms.

As well, the Committee discussed the need for supply agreements, as a requirement. At present, the Ministry requires a supply agreement to be in place when a licence is awarded. The majority of the Committee believes that a supply agreement should not be required, and that firms should be allowed to sell logs in an unhindered fashion. Supply agreements should be optional.

If supply agreements become optional, the Committee believes the firm holding a licence should still be required to process at least the equivalent volume.

Sawmills:

In most areas of British Columbia, sawmill capacity exceeds the timber supply. The Committee is concerned that bid proposal sales could lead to further expansion of primary breakdown sawmill capacity.

The Committee recommends that the policy discourage new primary breakdown sawmills in locations where there is unused capacity, unless the sawmill is an integral part of a remanufacturing plant or proposal.

Logging:

Under the present policy, the timber harvesting could be done by a major licensee, if the remanufacturer or specialty producer wanted a major licensee to do the logging.

The Committee discussed whether the logging under each licence should have to be done by a small business firm, and concluded that no such restriction was warranted or justified. Who performs the logging should remain the decision of the licensee. The Committee is unanimous on this point, except for the TLA, which believes the logging should be done by an independent operator.

Log Export

On the coast, logs are sorted and traded in the Vancouver log market. Logs which are surplus to the requirements of the industry can be exported. It is possible, therefore, that some of the logs from a bid proposal sale could be exported.

The Committee feels that exporting logs from bid proposal sales is inconsistent with the objectives of encouraging remanufacturing and the production of specialty products. The Committee believes the government should consider an export prohibition on the logs from these licences.

Equivalent Volume:

Under the current policy, where a supply agreement is required, the supply agreement must provide a minimum amount of lumber to the remanufacturer from the sawmill. This minimum amount is the equivalent volume.

The equivalent volume is presently calculated as the total amount of lumber that could be produced from the logs in the bid proposal sale. For example, a sale containing 100 000 m^3 of timber and a lumber recovery factor of 225 board feet per cubic metre has an equivalent volume of 22.5 million board feet (i.e. 100 000 multiplied by 225).

Considerable discussion took place on the measurement of the equivalent volume. Some members argue that the logs in a licence can only produce a small quantity of lumber of the species and grades which a remanufacturer wants and, since the equivalent volume exceeds this greatly, sawmills must make up the deficiency from other logs. Some members see this as a positive aspect of the policy, since it provides strong incentives to increase the supply of lumber to remanufacturers.

The equivalent volume is seen by some members as a significant disincentive for major licences to participate in bid proposal sales, particularly on the coast.

There is no agreement in the Committee on changes to the measurement of the equivalent volume.

However, the Committee recommends that the holder of a licence be required to process the equivalent volume, even if a supply agreement is not required.

Monitoring:

The Committee discussed monitoring at length and concluded that strict monitoring of the performance of firms which have been awarded licences is essential.

The key area for monitoring is the firm's proposal. Specifically, the construction or expansion schedule (is it being met), production (are the proposed products being manufactured) and sales (are the proposed selling prices being achieved) require monitoring.

The Committee strongly recommends that the Ministry should require a construction schedule as part of the proposal, monitor performance regularly, and cancel a licence if performance is materially different than the proposal which the firm gave the Ministry. The Ministry must have or allocate the necessary resources to monitor effectively.

6.0 ALTERNATIVE POLICIES:

The Committee identified a number of alternative policies which the Minister could consider. Below, these alternative policies are described, and the main advantages and disadvantages outlined.

6.1 COMPETITIVE SALES:

The Ministry could sell the timber which is currently apportioned for bid proposal sales to the highest bidder. Specifically, the Ministry could sell the timber under Section 16 of the Forest Act, rather than Section 16.1.

The main advantages of this option are simplicity and stumpage revenue. Competitive sales sold under Section 16 of the Forest Act are simple to administer because the policies and procedures are well-established. Because the sales are awarded on the basis of bonus bid only, stumpage revenue to the government would be higher than the revenue through sales under Section 16.1.

The central disadvantage of this option is that it would probably not lead to more remanufacturing in British Columbia. The employment and economic development associated with an expansion of remanufacturing would be forsaken. The Ministry would not be promoting and encouraging the development of this sector of the industry.

6.2 SIMPLE CREDIT SYSTEM:

The Ministry would sell timber to the logger which offered the highest bonus bid. The logger would be required to sell the logs to a sawmill which has supplied lumber to a remanufacturer. The quantity of logs the logger can sell to a sawmill would be restricted to a determined volume, based on the amount of lumber the sawmill has supplied to a remanufacturer.

The Ministry would give credits to each sawmill which has supplied lumber to a recognized remanufacturer or specialty producer. The amount of credit would be related to the amount of lumber sold. Sawmills could then effectively exchange their credits for standing timber, with the Ministry providing the timber.

The advantages of this alternative are as follows. First, it may give major licensees a stronger incentive to supply lumber to remanufacturers. Second, it would allow remanufacturers who do not want to acquire the right to standing timber an opportunity to participate in a program designed to increase their lumber supply. Third, it would give sawmills which are presently supplying lumber some recognition.

There are several disadvantages. First, the Ministry would have to keep track (or audit) the sale of lumber in British Columbia to know what credits to give to sawmills. This would be an enormous task. Second, lumber could be sold between firms (without any processing) so as to generate credits. This could create "policing" problems. Third, legislation would be required to provide the Ministry with the power to control the private sale of logs, to ensure logs are sold to sawmills with credits. Finally, a simple credit system does not lead to the allocation of lumber to the use which generates the most value-added.

The Committee believes this alternative does not require further consideration, so long as supply agreements are optional as recommended in Section 5.6.

6.3 COMPLEX CREDIT SYSTEM:

This alternative is the same as the simple credit system with one key change: the Ministry would categorize each remanufacturer according to the amount or level of value-added in their operation. Credits would then be given to sawmills which supply lumber to the remanufacturers according to both the category and the amount of lumber supplied.

This alternative has the same advantages as the simple credit system. In addition, this alternative would lead to lumber being supplied to the remanufacturer with the highest value-added.

The disadvantages are essentially the same as with the simple credit system. In addition, the administrative requirements for the Ministry are more pronounced. The Ministry would have to evaluate every remanufacturer each year to categorize them.

The Committee felt that classifying plants by value-added category was impractical and too complicated.

6.4 EXPORT RESTRICTIONS:

To increase the supply of fibre available for remanufacturing in British Columbia, the government could consider export restrictions on high-quality cants which are now exported. These cants often contain significant amounts of clear, knot free fibre which could be remanufactured in British Columbia, rather than in other countries.

Export restrictions do not appear to be a feasible, and at present, economic alternative. In all likelihood, they would contravene the General Agreement on Tariffs and Trade, and the Canada-U.S. Free Trade Agreement.

6.5 SUPPLY TARGETS:

To increase the supply of fibre available for remanufacturing, the government could establish a target volume for each major licensee to supply to remanufacturers. For example, each major licensee could be required to make available at competitive prices 15 or 20 percent of the lumber produced to remanufacturers.

The Committee discussed this alternative and reached no concensus. It does not appear practical at this time.

7.0 NEW INITIATIVES:

The Committee identified and briefly discussed some new initiatives.

7.1 INDUSTRY STUDY:

The Committee believes that the government and the industry would benefit from a comprehensive study of remanufacturers and specialty producers in British Columbia.

The study should identify the firms involved, the amount of fibre consumed, the amount of fibre available, markets for products and the status of the industry. Such a study would also set a benchmark for the sector, against which progress could be measured. As well, new initiatives to encourage the industry may be identified through such a study.

The Committee recommends that the Ministry undertake this comprehensive study. This is an important study.

7.2 MARKETING AND RESEARCH:

Government and industry currently cooperate in market development and research.

In the marketing area, the two main initiatives are the Cooperative Overseas Market Development Program, and the Cooperative Industrial and Market Development Program. In research, Forintek Canada Corp. deserves mention.

The Committee thinks these are useful initiatives.

7.3 TARIFFS:

The Committee discussed tariffs and their effect on the growth of remanufacturing. In particular, one firm pointed out that certain tariffs have the effect of preventing the production of products here in British Columbia and, instead, encourage the export of high-quality fibre as cants for remanufacturing outside British Columbia.

The Committee recommends a thorough study of tariffs be done to identify those which are a barrier to the development of British Columbia's remanufacturing industry.

8.0 SUMMARY AND CONCLUSION:

The Committee has completed the mandate given to it by the Minister of Forests.

While there is substantial agreement on many issues and useful recommendations have been given, complete agreement could not be reached on all points. Where different points of view remain, they have been explained, so that the Minister may consider their merits.

The Bid Proposal Sales Committee submits its Report for the government's consideration.